

Return to  
**REDSKY LAND, LLC**  
200 Star Ave., Ste 220  
Parkersburg, WV 26101

**PAID-UP  
OIL & GAS LEASE**

08/08 NY

Lease No  
1 280947-000

This Lease made this **17th** day of **April, 2009** by and between **Jerry A. Smith and Karen M. Smith, husband and wife** whose address is **90 Staples Road, Erin, New York 14838** hereinafter collectively called Lessor and **CHESAPEAKE APPALACHIA L L C** an Oklahoma limited liability company P O Box 6070 Charleston WV 25362 0070 hereinafter called Lessee

WITNESSETH that for and in consideration of One Dollar (\$1 00) and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged and of the mutual covenants and agreements hereinafter set forth the Lessor and Lessee agree as follows

**LEASING CLAUSE** Lessor hereby leases exclusively to Lessee all the oil and gas including but not limited to coal seam gas coalbed methane gas coalbed gas methane gas gob gas occluded methane/natural gas and all associated natural gas and other hydrocarbons and non hydrocarbons contained in associated with emitting from or produced/originating within any formation gob area, mined out area, coal seam and all communicating zones and their liquid or gaseous constituents whether hydrocarbon or non hydrocarbon underlying the land herein leased together with such exclusive rights as may be necessary or convenient for Lessee at its election to explore for develop produce measure and market production from the Leasehold and from adjoining lands using methods and techniques which are not restricted to current technology including the right to conduct geophysical and other exploratory tests to drill maintain operate cease to operate plug abandon and remove wells to use or install roads electric power and telephone facilities and to construct pipelines with appurtenant facilities including data acquisition compression and collection facilities for use in the production and transportation of products from the Leasehold or from neighboring lands across the Leasehold to use oil gas and non domestic water sources free of cost to store gas of any kind underground regardless of the source thereof including the injecting of gas therein and removing the same therefrom to protect stored gas to operate maintain repair and remove material and equipment

**DESCRIPTION** The Leasehold is located in the Town of **Erin** in the County of **Chemung** the State of **New York**, and described as follows

**Tax Map No 61 00 1 6 12** and is bounded formerly or currently as follows

On the North by lands of	<b>William J Whitmore</b>
On the East by lands of	<b>Keith Woleben</b>
On the South by lands of	<b>Wayne L Sheesley</b>
On the West by lands of	<b>Jerry A. Smith</b>

including lands acquired from **Bernard K. Morey and Carol Morey** by virtue of deed dated **May 17 1999** and recorded in Fiche **1028** at Page **10** and described for the purposes of this agreement as containing a total of **13 565** Leasehold acres whether actually more or less and including contiguous lands owned by Lessor This Lease also covers and includes in addition to that above described all land if any contiguous or adjacent to or adjoining the land above described and (a) owned or claimed by Lessor by limitation prescription possession reversion or unrecorded instrument or (b) as to which Lessor has a preference right of acquisition Lessor agrees to execute any supplemental instrument requested by Lessee for a more complete or accurate description of said land

**LEASE TERM** This Lease shall remain in force for a primary term of **Five (5) years** from **12 00 A M April 17 2009** (effective date) to **11 59 P M April 17 2014** (last day of primary term) and shall continue beyond the primary term as to the entirety of the Leasehold if any of the following is satisfied

- (i) operations are conducted on the Leasehold or lands pooled/unitized therewith in search of oil gas or their constituents or
- (ii) a well deemed by the Lessee to be capable of production is located on the Leasehold or lands pooled/unitized therewith or
- (iii) oil or gas or their constituents are produced from the Leasehold or lands pooled/unitized therewith or
- (iv) the Leasehold or lands pooled/unitized therewith is used for the underground storage of gas or for the protection of stored gas or
- (v) prescribed payments are made

If Lessee's operations are delayed postponed or interrupted as a result of any coal stone or other mining or mining related operation under any existing and effective lease permit or authorization covering such operations on the leased premises or on other lands affecting the leased premises such delay will automatically extend the primary or secondary term of this oil and gas lease without additional compensation or performance by Lessee for a period of time equal to any such delay postponement or interruption

If there is any dispute concerning the extension of this Lease beyond the primary term by reason of any of the alternative mechanisms specified herein the payment to the Lessor of the prescribed payments provided below shall be conclusive evidence that the Lease has been extended beyond the primary term

~~**EXTENSION OF PRIMARY TERM** Lessee has the option to extend the primary term of this Lease for one additional term of five (5) years from the expiration of the primary term of this Lease said extension to be under the same terms and conditions as contained in this Lease Lessee may exercise this option to extend this Lease if on or before the expiration date of the primary term of this Lease Lessee pays or tenders to the Lessor or to the Lessor's credit an amount equal to the initial consideration given for the execution hereof Exercise of this option is at Lessee's sole discretion and may be invoked by Lessee where no other alternative of the Lease Term clause extends this Lease beyond the primary term~~

**NO AUTOMATIC TERMINATION OR FORFEITURE**

(A) **CONSTRUCTION OF LEASE** The language of this Lease (including but not limited to the Lease Term and Extension of Term clauses) shall never be read as language of special limitation This Lease shall be construed against termination forfeiture cancellation or expiration and in favor of giving effect to the continuation of this Lease where the circumstances exist to maintain this Lease in effect under any of the alternative mechanisms set forth above In connection therewith (i) a well shall be deemed to be capable of production if it has the capacity to produce a profit over operating costs without regard to any capital costs to drill or equip the well or to deliver the oil or gas to market and (ii) the Lessee shall be deemed to be conducting operations in search of oil or gas or their constituents if the Lessee is engaged in geophysical and other exploratory work including but not limited to activities to drill an initial well to drill a new well or to rework stimulate deepen sidetrack frac plug back in the same or different formation or repair a well or equipment on the Leasehold or any lands pooled/unitized therewith (such activities shall include but not be limited to performing any preliminary or preparatory work necessary for drilling conducting internal technical analysis to initiate and/or further develop a well obtaining permits and approvals associated therewith and may include reasonable gaps in activities provided that there is a continuum of activities showing a good faith effort to develop a well or that the cessation or interruption of activities was beyond the control of Lessee including interruptions caused by the acts of third parties over whom Lessee has no control or regulatory delays associated with any approval process required for conducting such activities)

(B) **LIMITATION OF FORFEITURE** This Lease shall never be subject to a civil action or proceeding to enforce a claim of termination cancellation expiration or forfeiture due to any action or inaction by the Lessee including but not limited to making any prescribed payments authorized under the terms of this Lease unless the Lessee has received written notice of Lessor's demand and thereafter fails or refuses to satisfy or provide justification responding to Lessor's demand within 60 days from the receipt of such notice If Lessee timely responds to Lessor's demand but in good faith disagrees with Lessor's position and sets forth the reasons therefore such a response shall be deemed to satisfy this provision This Lease shall continue in full force and effect and no further damages (or other claims for relief) will accrue in Lessor's favor during the pendency of the dispute other than claims for payments that may be due under the terms of this Lease

**PAYMENTS TO LESSOR** In addition to the bonus paid by Lessee for the execution hereof Lessee covenants to pay Lessor proportionate to Lessor's percentage of ownership as follows

(A) **DELAY RENTAL** To pay Lessor as Delay Rental after the first year at the rate of five dollars (\$5 00) per net acre per year payable in advance **The parties hereto agree that this is a Paid Up Lease with no further Delay Rental and/or Delay in Marketing payments due to Lessor during the primary term hereof**

(B) **ROYALTY** To pay Lessor as Royalty less all taxes assessments and adjustments on production from the Leasehold as follows

1 **OIL** To deliver to the credit of Lessor free of cost a Royalty of the equal one eighth (1/8) part of all oil and any constituents thereof produced and marketed from the Leasehold

2 **GAS** To pay Lessor an amount equal to one eighth (1/8) of the revenue realized by Lessee for all gas and the constituents thereof produced and marketed from the Leasehold less the cost to transport treat and process the gas and any losses in volumes to point of measurement that determines the revenue realized by Lessee Lessee may withhold Royalty payment until such time as the total withheld exceeds fifty dollars (\$50 00)

(C) **DELAY IN MARKETING** In the event that Lessee drills a well on the Leasehold or lands pooled/unitized therewith that Lessee deems to be capable of production but does not market producible gas oil or their constituents therefrom and there is no other basis for extending this Lease Lessee shall

pay after the primary term and until such time as marketing is established (or Lessee surrenders the Lease) a Delay in Marketing payment equal in amount and frequency to the annual Delay Rental payment and this Lease shall remain in full force and effect to the same extent as payment of Royalty

(D) **SHUT IN** In the event that production of oil gas or their constituents is interrupted and not marketed for a period of twelve (12) months and there is no producing well on the Leasehold or lands pooled/unitized therewith Lessee shall thereafter as Royalty for constructive production pay a Shut in Royalty equal in amount and frequency to the annual Delay Rental payment until such time as production is re established (or Lessee surrenders the Lease) and this Lease shall remain in full force and effect During Shut in Lessee shall have the right to rework stimulate or deepen any well on the Leasehold or to drill a new well on the Leasehold in an effort to re establish production whether from an original producing formation or from a different formation In the event that the production from the only producing well on the Leasehold is interrupted for a period of less than twelve (12) months this Lease shall remain in full force and effect without payment of Royalty or Shut in Royalty

(E) **DAMAGES** Lessee will remove unnecessary equipment and materials and reclaim all disturbed lands at the completion of activities and Lessee agrees to repair any damaged improvements to the land and pay for the loss of growing crops or marketable timber

(F) **MANNER OF PAYMENT** Lessee shall make or tender all payments due hereunder by check payable to Lessor at Lessor's last known address and Lessee may withhold any payment pending notification by Lessor of a change in address Payment may be tendered by mail or any comparable method (e.g. Federal Express) and payment is deemed complete upon mailing or dispatch Where the due date for any payment specified herein falls on a holiday Saturday or Sunday payment tendered (mailed or dispatched) on the next business day is timely

(G) **CHANGE IN LAND OWNERSHIP** Lessee shall not be bound by any change in the ownership of the Leasehold until furnished with such documentation as Lessee may reasonably require Pending the receipt of documentation Lessee may elect either to continue to make or withhold payments as if such a change had not occurred

(H) **TITLE** If Lessee receives evidence that Lessor does not have title to all or any part of the rights herein leased Lessee may immediately withhold payments that would be otherwise due and payable hereunder to Lessor until the adverse claim is fully resolved

(I) **LIENS** Lessee may at its option pay and discharge any past due taxes mortgages judgments or other liens and encumbrances on or against any land or interest included in the Leasehold and Lessee shall be entitled to recover from the debtor with legal interest and costs by deduction from any future payments to Lessor or by any other lawful means

(J) **CHARACTERIZATION OF PAYMENTS** Payments set forth herein are covenants not special limitations regardless of the manner in which these payments may be invoked Any failure on the part of the Lessee to timely or otherwise properly tender payment can never result in an automatic termination expiration cancellation or forfeiture of this Lease Lessor recognizes and acknowledges that oil and gas lease payments in the form of rental bonus and royalty can vary depending on multiple factors and that this Lease is the product of good faith negotiations Lessor hereby agrees that the payment terms as set forth herein and any bonus payments paid to Lessor constitute full consideration for the Leasehold Lessor further agrees that such payment terms and bonus payments are final and that Lessor will not seek to amend or modify the lease payments or seek additional consideration based upon any differing terms which Lessee has or will negotiate with any other lessor/oil and gas owner

(K) **PAYMENT REDUCTIONS** If Lessor owns a lesser interest in the oil or gas than the entire undivided fee simple estate then the rentals (except for Delay Rental payments as set forth above) royalties and shut in royalties hereunder shall be paid to Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee

**UNITIZATION AND POOLING** Lessor grants Lessee the right to pool unitize or combine all or parts of the Leasehold with other lands whether contiguous or not contiguous leased or unleased whether owned by Lessee or by others at a time before or after drilling to create drilling or production units either by contract right or pursuant to governmental authorization Pooling or unitizing in one or more instances shall not exhaust Lessee's pooling and unitizing rights hereunder and Lessee is granted the right to change the size shape and conditions of operation or payment of any unit created Lessor agrees to accept and receive out of the production or the revenue realized from the production of such unit such proportional share of the Royalty from each unit well as the number of Leasehold acres included in the unit bears to the total number of acres in the unit Otherwise as to any part of the unit drilling operations in preparation for drilling production or shut in production from the unit or payment of Royalty Shut in Royalty Delay in Marketing payment or Delay Rental attributable to any part of the unit (including non Leasehold land) shall have the same effect upon the terms of this Lease as if a well were located on or the subject activity attributable to the Leasehold In the event of conflict or inconsistency between the Leasehold acres ascribed to the Lease and the local property tax assessment calculation of the lands covered by the Lease Lessee may at its option rely on the latter as being determinative for the purposes of this paragraph

**FACILITIES** Lessee shall not drill a well within 200 feet of any structure located on the Leasehold without Lessor's written consent Lessor shall not erect any building or structure or plant any trees within 200 feet of a well or within 25 feet of a pipeline without Lessee's written consent Lessor shall not improve modify degrade or restrict roads and facilities built by Lessee without Lessee's written consent

**CONVERSION TO STORAGE** Lessee is hereby granted the right to convert the Leasehold or lands pooled/unitized therewith to gas storage At the time of conversion Lessee shall pay Lessor's proportionate part for the estimated recoverable gas remaining in any well drilled pursuant to this Lease using methods of calculating gas reserves as are generally accepted by the natural gas industry and in the event that all wells on the Leasehold and/or lands pooled/unitized therewith have permanently ceased production Lessor shall be paid a Conversion to Storage payment in an amount equal to Delay Rental for as long thereafter as the Leasehold or lands pooled/unitized therewith is/are used for gas storage or for protection of gas storage such Conversion to Storage payment shall first become due upon the next ensuing Delay Rental anniversary date The use of any part of the Leasehold or lands pooled or unitized therewith for the underground storage of gas or for the protection of stored gas will extend this Lease beyond the primary term as to all rights granted by this Lease including but not limited to production rights regardless of whether the production and storage rights are owned together or separately

**TITLE AND INTERESTS** Lessor hereby warrants generally and agrees to defend title to the Leasehold and covenants that Lessee shall have quiet enjoyment hereunder and shall have benefit of the doctrine of after acquired title Should any person having title to the Leasehold fail to execute this Lease the Lease shall nevertheless be binding upon all persons who do execute it as Lessor

**LEASE DEVELOPMENT** There is no implied covenant to drill prevent drainage further develop or market production within the primary term or any extension of term of this Lease There shall be no Leasehold forfeiture termination expiration or cancellation for failure to comply with said implied covenants Provisions herein including but not limited to the prescribed payments constitute full compensation for the privileges herein granted

**COVENANTS** This Lease and its expressed or implied covenants shall not be subject to termination forfeiture of rights or damages due to failure to comply with obligations if compliance is effectively prevented by federal state or local law regulation or decree or the acts of God and/or third parties over whom Lessee has no control

**RIGHT OF FIRST REFUSAL** If at any time within the primary term of this lease or any continuation thereof Lessor receives any bona fide offer acceptable to Lessor to grant an additional lease (Top Lease) covering all or part of the Leasehold Lessee shall have the continuing option by meeting any such offer to acquire a Top Lease on equivalent terms and conditions Any offer must be in writing and must set forth the proposed Lessee's name bonus consideration and royalty consideration to be paid for such Top Lease and include a copy of the lease form to be utilized reflecting all pertinent and relevant terms and conditions of the Top Lease Lessee shall have fifteen (15) days after receipt from Lessor of a complete copy of any such offer to advise Lessor in writing of its election to enter into an oil and gas lease with Lessor on equivalent terms and conditions If Lessee fails to notify Lessor within the aforesaid fifteen (15) day period of its election to meet any such bona fide offer Lessor shall have the right to accept said offer Any Top Lease granted by Lessor in violation of this provision shall be null and void

**ARBITRATION** In the event of a disagreement between Lessor and Lessee concerning this Lease performance thereunder or damages caused by Lessee's operations the resolution of all such disputes shall be determined by arbitration in accordance with the rules of the American Arbitration Association All fees and costs associated with the arbitration shall be borne equally by Lessor and Lessee

**ENTIRE CONTRACT** The entire agreement between Lessor and Lessee is embodied herein No oral warranties representations or promises have been made or relied upon by either party as an inducement to or modification of this Lease

**TITLE CURATIVE** Lessor agrees to execute affidavits ratifications amendments permits and other instruments as may be necessary to carry out the purpose of this lease

**SURRENDER** Lessee at any time and from time to time may surrender and cancel this Lease as to all or any part of the Leasehold by recording a Surrender of Lease and thereupon this Lease and the rights and obligations of the parties hereunder shall terminate as to the part so surrendered provided however that upon each surrender as to any part of the Leasehold Lessee shall have reasonable and convenient easements for then existing wells pipelines pole lines roadways and other facilities on the lands surrendered

**SUCCESSORS** All rights duties and liabilities herein benefit and bind Lessor and Lessee and their heirs successors and assigns

**FORCE MAJEURE** All express or implied covenants of this Lease shall be subject to all applicable laws rules regulations and orders When drilling reworking production or other operations hereunder or Lessee's fulfillment of its obligations hereunder are prevented or delayed by such laws rules regulations or orders or by inability to obtain necessary permits equipment services material water electricity fuel access or easements or by fire flood adverse weather conditions war sabotage rebellion insurrection not strike or labor disputes or by inability to obtain a satisfactory market for production or

failure of purchasers or carriers to take or transport such production or by any other cause not reasonably within Lessee's control this Lease shall not terminate in whole or in part because of such prevention or delay and at Lessee's option the period of such prevention or delay shall be added to the term hereof Lessee shall not be liable in damages for breach of any express or implied covenants of this Lease for failure to comply therewith if compliance is prevented by or failure is the result of any applicable laws rules regulations or orders or operation of force majeure

SEVERABILITY This Lease is intended to comply with all applicable laws rules regulations ordinances and governmental orders If any provision of this Lease is held by a court of competent jurisdiction to be invalid void or unenforceable the remaining provisions shall survive and continue in full force and effect to the maximum extent allowed by law If a court of competent jurisdiction holds any provision of this Lease invalid void or unenforceable under applicable law the court shall give the provision the greatest effect possible under the law and modify the provision so as to conform to applicable law if that can be done in a manner which does not frustrate the purpose of this Lease

COUNTERPARTS This Lease may be executed in one or more counterparts each of which will be deemed to be an original copy of this Lease and all of which when taken together will be deemed to constitute one and the same agreement

See EXHIBIT A attached hereto and made a part hereof

**IF THIS LEASE BECOMES FORFEITED, TERMINATED, OR EXPIRES, THE LESSEE, OR IF THE LEASE HAS BEEN ASSIGNED, THE ASSIGNEE IS REQUIRED TO PROVIDE A DOCUMENT CANCELING THE LEASE AS OF THE RECORD, AT NO COST TO THE CURRENT LANDOWNER IF THE LESSEE OR ASSIGNEE FAILS TO CANCEL THE LEASE, THE CURRENT LANDOWNER MAY COMPEL A CANCELLATION PURSUANT TO SECTION 15-304 OF THE GENERAL OBLIGATION LAW**

**THIS IS A LEASE OF OIL AND GAS RIGHTS, NOT A SALE, CONTAINING TERMS THAT MAY BE NEGOTIATED BY YOU YOU HAVE THE RIGHT TO CANCEL THIS LEASE WITHIN THREE BUSINESS DAYS AFTER EXECUTION OF THE LEASE BY NOTIFYING THE LESSEE THAT YOU HAVE CANCELED THIS CONTRACT IN ORDER TO CANCEL THIS LEASE, YOU MUST EXECUTE A NOTICE OF CANCELLATION IN THE FORM PROVIDED BELOW, MAIL IT TO THE LESSEE AND REFUND ALL AMOUNTS PAID TO YOU BY THE LESSEE WITHIN THE THREE-DAY CANCELLATION PERIOD THE MAILING MUST BE POSTMARKED WITHIN THE THREE-DAY CANCELLATION PERIOD TO BE EFFECTIVE**

**NOTICE OF CANCELLATION**

**I/WE HEREBY CANCEL THIS LEASE**

**DATED**

**SIGNATURE(S)**

**THE PERSON PRESENTING THIS LEASE TO YOU IS ☐ NOT ☐ A MEMBER OF THE AMERICAN ASSOCIATION OF PROFESSIONAL LANDMEN AND THEREFORE IS ☐ IS NOT ☐ SUBJECT TO A CODE OF CONDUCT IF THE PERSON PRESENTING THIS LEASE TO YOU IS SUBJECT TO A CODE OF CONDUCT, A COPY OF THE CODE OF CONDUCT MUST BE PRESENTED TO YOU WITH THIS LEASE IF APPLICABLE, THE CODE OF CONDUCT PROVIDES A DISPUTE RESOLUTION MECHANISM FOR ANY DISPUTE THAT YOU MAY HAVE REGARDING THE MANNER BY WHICH THIS LEASE WAS PRESENTED TO YOU IF YOU HAVE ANY SUCH DISPUTE, YOU MAY INVOKE THE DISPUTE RESOLUTION MECHANISM OF THE CODE OF CONDUCT BY CONTACTING THE PERSON OR PERSONS DESIGNATED IN THE CODE OF CONDUCT THE FAILURE OF THE LESSEE TO PAY ANY ROYALTIES TO YOU AS REQUIRED UNDER THE TERMS OF THE LEASE FOR A PERIOD OF FOUR CONSECUTIVE MONTHS OR MORE SHALL BE A DEFAULT UNLESS OTHERWISE PROVIDED BY LAW, AND WILL RESULT IN CANCELLATION OF THE LEASE APPLICABLE TO THE TARGET FORMATION OF THE WELL WITHIN THE SPACING UNIT, FOLLOWING WRITTEN NOTIFICATION TO THE LESSEE OF YOUR INTENT TO CANCEL AND SIXTY DAYS FOR THE LESSEE TO CURE THE DEFAULT IF THE LESSEE HAS A BONA FIDE DISPUTE REGARDING THE GROUNDS FOR CANCELLATION, SUCH DISPUTE AND THE REASONS THEREFOR MUST BE PROVIDED TO YOU IN WRITING OR THE DEFAULT MUST BE CURED WITHIN SUCH SIXTY-DAY PERIOD OTHERWISE THE LEASE SHALL BE CANCELED**

IN WITNESS WHEREOF Lessor hereunto sets hand and seal

Subscribing Witness William A Dressel  
**William A Dressel**

(Seal) Jerry A Smith  
**Jerry A Smith**  
(Seal) Karen M Smith  
**Karen M Smith**

ACKNOWLEDGEMENT OF SUBSCRIBING WITNESS

State of New York

SS

County of Steuben

On the 20 day of Apr in the year **2009** before me the undersigned a Notary Public in and for said State personally appeared **William A Dressel** the subscribing witness to the foregoing instrument with whom I am personally acquainted who being by me duly sworn did depose and say that he/she/they reside(s) in **Erin New York**, that he/she/they know(s) **Jerry A Smith and Karen M Smith** to be the individual described in and who executed the foregoing instrument that said subscribing witness was present and saw said **Jerry A Smith and Karen M Smith** execute the same and that said witness at the same time subscribed his/her/their names(s) as a witness thereto

My commission expires 4-26-11

Signature / Notary Public Deanna L Swan

Name / Notary Public (print) Deanna L Swan

**Deanna L Swan**  
**Notary Public In The State New York**  
**Steuben County**  
**Commission Expires April 26, 2011**

## Exhibit "A"

Attached to and made a part of that certain oil and gas lease dated **April 17, 2009** by and between **Jerry A. Smith and Karen A. Smith, husband and wife** (Lessor) and **Chesapeake Appalachia, L L C** an Oklahoma Limited Liability Company (Lessee) covering **13 565** acres more or less situated in the Town of **Erin Chemung** County **New York**

The following agreements and provisions shall supersede and govern the provisions in the printed form text of this lease to the contrary and shall inure to the benefit of and be binding upon the parties hereto and their respective heirs representatives successors and assigns

### No Storage Rights Clause

Notwithstanding anything herein contained to the contrary Lessee agrees the herein described leased premises shall not be used for the purpose of gas storage as defined by the Federal Energy Regulatory Commission Any reference to gas storage contained in this lease is hereby deleted If Lessor wishes to enter into an agreement regarding gas storage using the leased premises with a third party Lessor shall first give Lessee written notice of the identity of the third party the price or the consideration for which the third party is prepared to offer the effective date and closing date of the transaction and any other information respecting the transaction which Lessee believes would be material to the exercise of the offering Lessor does hereby grant Lessee the first option and right to purchase the gas storage rights by matching and tendering to the Lessor any third party's offering within 30 days of receipt of notice from Lessor

### Water Damage Clause

In the event any activity carried on by Lessee pursuant to the terms of this lease damages disturbs or injures Lessor's fresh water well or source located on these leased premises Lessee shall at its sole cost and expense use its best efforts to correct any such damage disturbance or injury

### Ad Valorem Taxes Clause

Lessee agrees to pay 7/8ths of any increase in ad valorem taxes attributable to or resulting from the assessment of oil and gas due to production from the leased premises

### Compliance Clause

Lessee's operations on said land shall be in compliance with all applicable federal and state regulations

### Market Enhancement Clause

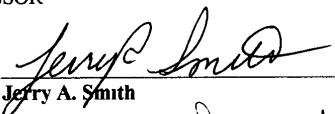
It is agreed between the Lessor and Lessee that, notwithstanding any language herein to the contrary all oil gas or other proceeds accruing to the Lessor under this lease or by state law shall be without deduction, directly or indirectly for the cost of producing gathering storing separating treating dehydrating compressing processing, transporting and marketing the oil gas and other products produced hereunder to transform the product into marketable form however any such costs which result in enhancing the value of the marketable oil gas or other products to receive a better price may be deducted from Lessor's share of production so long as they are based on Lessee's actual cost of such enhancements However in no event shall Lessor receive a price that is less than or more than, the price received by Lessee

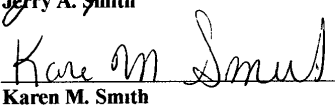
### No Surface Operations Clause

The parties hereto agree Lessee shall not have the right to drill wells construct pipelines construct access roads and/or install any other facilities on all 13 565 acres of the surface of the leased premises

Signed for identification

LESSOR

By  \_\_\_\_\_  
Jerry A. Smith

By  \_\_\_\_\_  
Karen M. Smith